

**REPORT OF THE AUDIT OF THE
ADAIR COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ADAIR COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Adair County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$19,256 from the prior year, resulting in excess fees of \$170,285 as of December 31, 2010. Revenues increased by \$112,903 from the prior year and expenditures increased by \$132,159.

Debt Obligations:

Total debt principal as of December 31, 2010, was \$14,858. Future collections of \$14,858 are needed over the next three years to pay all debt principal and interest.

Report Comments:

- 2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Accounting Functions
- 2010-02 The County Clerk Should Improve Internal Controls Over Accounts Receivable

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Adair County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2010 on our consideration of the Adair County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Ann Melton, County Judge/Executive
The Honorable Sheila Blair, County Clerk
Members of the Adair County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

2010-02 The County Clerk Should Improve Internal Controls Over Accounts Receivable

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Adair County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 29, 2010

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Fees For Services		\$	67,340
Fiscal Court			3,239
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	854,834	
Usage Tax		1,598,887	
Tangible Personal Property Tax		1,145,770	
Other-			
Marriage Licenses		5,360	
Dog Tags		590	
Deed Transfer Tax		28,498	
Delinquent Tax		129,013	3,762,952
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		18,854	
Real Estate Mortgages		26,877	
Chattel Mortgages and Financing Statements		52,170	
Powers of Attorney		2,365	
All Other Recordings		24,022	
Charges for Other Services-			
Title Applications		4,268	
Copywork		5,706	
Notary Fee		1,805	136,067
Other:			
Lien Fees		11,320	
Miscellaneous		644	11,964
Interest Earned			4,541
Total Revenues			3,986,103

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
 SHEILA BLAIR, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 643,039

Usage Tax 1,550,920

Tangible Personal Property Tax 404,616

Licenses, Taxes, and Fees-

Delinquent Tax 13,694

Legal Process Tax 17,790

Affordable Housing Trust 19,008 \$ 2,649,067

Payments to Fiscal Court:

Tangible Personal Property Tax 88,053

Delinquent Tax 12,140

Deed Transfer Tax 27,073 127,266

Payments to Other Districts:

Tangible Personal Property Tax 607,265

Delinquent Tax 62,355 669,620

Payments to Sheriff

11,285

Payments to County Attorney

16,464

Operating Expenditures:

Personnel Services-

Deputies' Salaries 155,702

Part-Time Salaries 18,236

Overtime 7,140

Election Pay 930

Employee Benefits-

Employer's Share Social Security 18,204

Employer's Paid Health Insurance 27,203

Contracted Services-

Equipment & Maintenance 15,040

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
 SHEILA BLAIR, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Materials and Supplies-			
Office Supplies	\$	778	
Other Charges-			
Conventions and Travel		2,851	
Dues		960	
Postage		246	
Dog Tags		215	
Notary Fees		59	
Office Cleaning & Repair		1,500	
Tax Bill Preparation		<u>3,619</u>	
			\$ 252,683
Debt Service:			
Lease Purchases			<u>5,880</u>
Total Expenditures			<u>\$ 3,732,265</u>
Net Revenues			253,838
Less: Statutory Maximum			<u>76,104</u>
Excess Fees			177,734
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,624</u>	<u>7,224</u>
Excess Fees Due County for 2010			170,510
Payment to Fiscal Court - February 8, 2011			<u>170,000</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 510</u>

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Adair County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Adair County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Lease Agreements

The Adair County Clerk's office was committed to the following lease agreements as of December 31, 2010:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Balance 12/31/2010
Copier	\$ 79	45 months	8/1/2013	\$ 2,512
Copier	\$ 412	60 months	8/1/2013	\$ 12,346

Note 5. Grant

The Adair County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$19,610. These funds were not expended during the year; therefore, the unexpended grant balance was \$19,610 as of December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
The Honorable Sheila Blair, Adair County Clerk
Members of the Adair County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Adair County Clerk for the year ended December 31, 2010, and have issued our report thereon dated March 29, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adair County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01 and 2010-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Adair County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 29, 2011

COMMENTS AND RECOMMENDATIONS

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

A lack of adequate segregation of duties exists over receipts and disbursements. The County Clerk and deputies collect cash and each deputy balances their own cash drawer. The deputies rotate the responsibility of compiling the daily checkout sheet, posting to the receipts ledger, and preparing the deposit. The County Clerk prepares and signs checks, posts to the ledger, and prepares the monthly bank reconciliations. She also prepares weekly, monthly, and quarterly reports.

A segregation of duties over daily checkout procedures, deposit preparation, the preparation of checks, and bank reconciliations are essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, we recommend the County Clerk separate the duties involved in receiving cash, preparing bank deposits, check preparation, reconciliation of bank records to the ledgers, and preparation of reports. If these duties cannot be separated, strong oversight over these areas should be provided. If the County Clerk does implement oversight instead of segregating duties this should be documented on the appropriate source document.

County Clerk's Response: No response.

2010-02 The County Clerk Should Improve Internal Controls Over Accounts Receivable

The County Clerk has a lack of internal controls over accounts receivable and receivables are not reconciled on a monthly basis to the ledger. In addition, there is no written policy for the allowance or collection of accounts receivable. The County Clerk allows automobile dealerships, attorneys, and others to charge services on account. The deputy who allows the charge is responsible for recording the receivable in the charge book as well as posting the collection of the charge when it is collected. In addition to the charge book, the clerk has an automated system. If the charge is done correctly it will be reflected in the automated systems charge report. However the automated systems reports are only produced for the current month, if anyone had a charge on a previous month and had done no further business with the clerk the charge would not be reflected on the current report.

During testing of receivables it was noted the Clerk had \$169 in outstanding receivables per the quarterly report. The automated system reflected an outstanding balance of \$204 for the same ending period. If receivables were reconciled on a regular basis there would not be a variance between the quarterly report and automated system report for charges. By the time of the exit, \$204 dollars had been collected.

ADAIR COUNTY
SHEILA BLAIR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2010-02 The County Clerk Should Improve Internal Controls Over Accounts Receivable
(Continued)

We also noted individuals were allowed to charge and did not pay within the same month avoiding late fees and penalties. In addition we noted the County Clerk does not require outstanding receivables charged to be settled by year-end.

We recommend the County Clerk require a) proper authorization for accounts receivable charges and collections, b) reconciliation of accounts receivable by someone independent of accounts receivable charges and collections, and c) the adoption of a written policy over accounts receivable that details allowable charges and collection procedures. Furthermore, we recommend the County Clerk maintain an outstanding receivables list at year-end and attempt to collect all receivables.

County Clerk's Response: No response.

